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Caprio assures state has no exposure to subprime risks

With a growing number of state investment funds being found to have exposure to defaulted or downgraded structured investment vehicles or other subprime related debt, Rhode Island General Treasurer Frank Caprio has assured Moody's Investors Service that the Ocean State has no such holdings.

Caprio said that in the midst of recent stories in the financial press detailing subprime-related losses for investment funds in Florida, Montana, Connecticut and Massachusetts, Moody's contacted Rhode Island with questions about its cash holdings. Treasurer Caprio manages approximately \$403 million in short-term cash for the state. In response to questions from Moody's, Caprio indicated that the state's cash funds have no exposure in the area of extendible ABCP (asset backed commercial paper), SIVs (structured investment vehicles), RMBS (residential mortgage backed securities), CDOs (collateralized debt obligations) or structured securities, including CMBS (commercial mortgage backed securities).

From his first days in office, beginning in January of 2007, Caprio and his investment management team launched a comprehensive assessment of the state pension portfolio and the state's short-term investments with a focus on their exposure to asset backed paper, SIVs, CDOs and similar investment types. As a result, Caprio pro-actively moved \$1 billion from Quality D money market

funds, which were in place when he took office, into Quality A institutional money market funds, which are only invested in government-backed bonds, last March, well before the scope of subprime losses began to rock financial markets. (The Quality D funds had loose terms that could allow for investment in CDOs and SIVs.) The treasurer also moved approximately \$150 million in high-yield bond investments and \$50 million in CDOs in short-term cash to safe treasury bonds, well before both markets began to decline.

"From the outset of the subprime crisis, it has been clear that some very reputable financial institutions made some very risky investments," said Caprio. "There is a growing concern that a number of public funds have been tied up in this crisis. As treasurer, I have taken a pro-active approach to assessing and managing risk, because I believe that is the only way to effectively handle public funds."

The State of Florida runs an investment pool for municipalities and school districts, which saw what some officials called a "run on the bank" last month when participants sought to withdraw nearly \$8 billion in funds in response to revelations that the fund was holding as much as \$900 million in defaulted subprime debt. The fund managers have since frozen withdrawals, leaving some localities facing potential payroll problems.

It was reported this week that

a similar Massachusetts fund is holding roughly \$134 million in SIVs, including four that may be downgraded. Connecticut's Short-Term Investment fund was found to have \$400 million in some of the same SIVs, with another \$100 million in an SIV that has already defaulted. Additionally, the State of Maine had \$20 million in a failed SIV, which has prompted the state treasurer there to prohibit new commercial paper investments.